

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 2323 - SB 2452**

February 16, 2012

**SUMMARY OF BILL:** Creates a franchise and excise tax credit for certain taxpayers that hire unemployed persons when the unemployed person's condition of unemployment meets specified criteria. Establishes that the taxpayer, in order to qualify for the tax credit, must provide the unemployed person employment for at least 12 consecutive months, no less than 37.5 hours of weekly work, and a wage of at least \$10 per hour. The amount of tax credit for which an eligible taxpayer will be eligible is dependent upon the wage paid to the newly-hired person. Authorizes carry-forward provisions up to ten years under certain circumstances. Authorizes the Commissioner of Revenue to promulgate rules and regulations.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$69,699,100/Recurring/General Fund**

**Increase State Expenditures – \$10,600/One-Time/General Fund  
\$112,300/Recurring/General Fund**

**Decrease State Expenditures –  
\$21,543,300/Recurring/Unemployment Trust Fund**

**Increase Local Revenue - \$2,285,300/Recurring**

**Assumptions:**

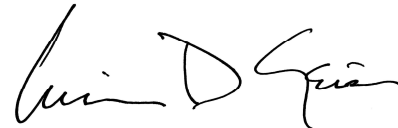
- The amount of tax credits authorized by this bill to any eligible taxpayer is dependent upon the wages paid to new qualified employees.
- The bill authorizes three tax credit brackets as follows: for paid wages at least \$10.00 per hour, up to \$11.99 per hour, a tax credit equal to 20 percent of gross wages paid; for paid wages equal to \$12.00 per hour, up to \$13.99 per hour, a tax credit equal to 25 percent of gross wages paid; and for paid wages \$14.00 per hour or greater, a tax credit equal to 30 percent of gross wages paid.
- The average wage for qualified employees applicable to the 20 percent tax credit bracket earn an average wage of \$11.00 per hour; applicable to the 25 percent tax credit bracket, an average wage of \$13 per hour; and applicable to the 30 percent tax credit bracket, an average wage of \$15 per hour.
- Each qualified employee is paid for 37.5 hours of work each week for 50 calendar weeks.

- The tax credit applicable to a qualified employee earning an average wage of \$11.00 per hour is estimated to be \$4,125 (50 weeks x 37.5 hours x \$11.00 per hour x 20.0% credit); applicable to a qualified employee earning an average wage of \$13.00 per hour is estimated to be \$6,094 (50 weeks x 37.5 hours x \$13.00 per hour x 25.0% credit); and applicable to a qualified employee earning an average wage of \$15.00 per hour is estimated to be \$8,438 (50 weeks x 37.5 hours x \$15.00 per hour x 30.0% credit).
- According to the Department of Revenue (DOR), and based from the December 2011 issue of The Labor Market Report (published by the Tennessee Department of Labor), there were approximately 269,300 unemployed individuals in Tennessee as of December 2011.
- Based on information provided by DOR, approximately five percent of unemployed individuals (or 13,465) will be employed in positions that meet the terms of this bill. Other unemployed individuals are assumed to either remain unemployed or gain employment at wage levels not applicable to this bill.
- Of the 13,465 individuals that will be employed according to the terms of this bill, 6,733 (or 50 percent) will be paid an average wage of \$11.00 per hour; 4,040 (or 30 percent) will be paid an average wage of \$13.00 per hour; and 2,692 (or 20 percent) will be paid an average wage of \$15.00 per hour.
- The total recurring decrease in state revenue applicable to the authorized tax credits is estimated to be \$75,108,481  $[(6,733 \times \$4,125) + (4,040 \times \$6,094) + (2,692 \times \$8,438)]$ .
- Fifty percent of individuals that will be employed according to the terms of this bill (or 6,733) are assumed to have remained unemployed in the absence of the bill; the remaining 50 percent are assumed to have gained similar employment in the absence of the bill. It is further assumed that 90 percent of the individuals that would have remained unemployed (or 6,060) would be receiving, or would have received, unemployment benefits from the Unemployment Trust Fund; the remaining ten percent (or 673) would not be receiving, nor would have received, unemployment benefits.
- Average unemployment benefits paid for December 2011 were approximately \$237 per week for an average duration of 15 weeks.
- The recurring decrease in state expenditures from the Unemployment Trust Fund is estimated to be \$21,543,300  $(6,060 \times \$237.00 \times 15 \text{ weeks})$ .
- Given that 6,733 individuals will become employed that would not have under current law, state and local governments will realize incremental sales tax revenue.
- Fifty percent (or 3,367) earn an average wage of \$11.00 per hour; 30 percent (or 2,020) earn an average wage of \$13; and 20 percent (or 1,346) will earn an average wage of \$15.00 per hour.
- Gross annual wages for the 6,733 individuals are estimated to be \$156,538,125  $[(3,367 \times 37.5 \text{ hours} \times 50 \text{ weeks} \times \$11.00 \text{ per hour}) + (2,020 \times 37.5 \text{ hours} \times 50 \text{ weeks} \times \$13.00 \text{ per hour}) + (1,346 \times 37.5 \text{ hours} \times 50 \text{ weeks} \times \$15.00 \text{ per hour})]$ .
- The net adjusted gross income for the 6,733 individuals is estimated to be \$134,994,825  $(\$156,538,125 \text{ wages} - \$21,543,300 \text{ unemployment benefits})$ .
- Sixty percent of net adjusted gross income will be spent in the economy on sales-taxable goods and services.
- The recurring increase in taxable sales is estimated to be \$80,996,895  $(\$134,994,825 \times 60\%)$ .

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be \$5,669,783 (\$80,996,895 x 7.0%); the recurring increase in local option sales tax revenue is estimated to be \$2,024,922 (\$80,996,895 x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be \$260,385 (\$5,669,783 x 4.5925%).
- The net recurring increase in state sales tax revenue is estimated to be \$5,409,398 (\$5,669,783 - \$260,385).
- The total recurring increase in local revenue is estimated to be \$2,285,307 (\$2,024,922 + \$260,385).
- The net recurring decrease in state revenue to the General Fund as a result of this bill is estimated to be \$69,699,083 (\$75,108,481 - \$5,409,398).
- DOR indicates the Department will require one additional Tax Auditor 4 position to implement the provisions of this bill. The recurring increase in state expenditures associated with the position is estimated to be \$112,300 (\$69,288 salary; \$25,812 benefits; \$17,200 other). One-time state expenditures associated with the position is estimated to be \$10,600 (computer, software, supplies, etc.).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc